

Message Text

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ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07

L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03 CIEP-01

LAB-04 SIL-01 OMB-01 STR-04 CEA-01 AGR-05 FEA-01

OES-03 TAR-01 /111 W

----- 121974

R 210703Z NOV 75

FM AMEMBASSY BUDAPEST

TO SECSTATE WASHDC 4709

DEPT OF COMMERCE WASHDC

INFO AMEMBASSY MOSCOW

AMCONSUL MUNICH

USMISSION NATO

AMEMBASSY BELGRADE

AMEMBASSY BERLIN

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LIMITED OFFICIAL USE SECTION 1 OF 2 BUDAPEST 3764

MUNICH FOR RFE

E.O. 11652: N/A

TAGS: EALR, ECON, EEWT, ETRD, HU

SUBJ: DEPUTY MINISTERS OF PLANNING AND FOREIGN TRADE DISCUSS

HUNGARY'S FIFTH FIVE-YEAR PLAN

REF A: BUDAPEST 3194 (NOTAL)

B: BUDAPEST 3464 (NOTAL)

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C: BUDAPEST 3599

D: BUDAPEST 3697 (NOTAL)

1. SUMMARY: AT FIRST JOINT MEETING U.S.-HUNGARIAN ECONOMIC COUNCIL (NOV 10-11) DEPUTY MINISTERS OF PLANNING AND FOREIGN TRADE OUTLINED THOSE SECTORS IN 1975-1980 FIVE-YEAR PLAN IN WHICH U.S. FIRMS' TECHNOLOGY MOST NEEDED. SIGNIFICANT OPPORTUNITIES EXIST IN MODERNIZATION OF HUNGARY'S CAPITAL EQUIPMENT PRODUCTION STRUCTURE FOR EXPORT MARKET AND DEVELOPMENT OF CHEMICAL EXPORT POSSIBILITIES. BOTH HUNGARIAN LEADERS STRESSED POTENTIAL FOR INDUSTRIAL COOPERATION AGREEMENTS WITH WESTERN FIRMS. END SUMMARY

2. LEAD-OFF SPEAKER NOV 10 AT FIRST JOINT SESSION OF HUNGARIAN-U.S. ECONOMIC COUNCIL WAS DEPUTY PLANNING MINISTER DRECIN, WHO GAVE FIRST-RATE PRESENTATION ON POTENTIAL BUSINESS FOR U.S. FIRMS IN HUNGARY DURING 1975-1980 FIVE-YEAR PLAN. DRECIN REVEALED FEW NEW FIGURES, BUT HE DID POINT OUT TO U.S. BUSINESSMEN, OBVIOUSLY SPEAKING WITH AUTHORITY, WHERE GOH EMPHASIS WILL BE AND HOW WESTERN FIRMS CAN BEST TAKE ADVANTAGE OF HUNGARIAN PLANS. DRECIN SAID FINAL PLAN NOT YET APPROVED (BY WHOM HE DID NOT SPECIFY; EMBASSY AWARE THAT MOST WORK FINISHED AND THAT DECEMBER PARLIAMENT SESSION ENVISAGED TO RUBBER-STAMP GOVERNMENT PROPOSALS -- REF C). DEPUTY MINISTER OF FOREIGN TRADE GYULA KOVACS FILLED IN SOME DETAILS NOV 11.

3. DESCRIBING CURRENT SITUATION, DRECIN: (A) SAID HUNGARY DEPENDS ON FOREIGN TRADE FOR 40 PERCENT OF ITS GNP AND POINTED OUT THAT IT CAN NO LONGER ISOLATE ITSELF FROM UNFAVORABLE WESTERN ECONOMIC CONITIONS; (B) NOTED HUNGARY CONDUCTS 60-65 PERCENT OF ITS TRADE WITH SOCIALIST COUNTRIES (55 PERCENT WITH CEMA STATES), THEREBY INSURING RELIABLE SOURCE OF RAW MATERIALS AND ENERGY FOR HUNGARY; (C) EXPLAINED THAT IN ORDER FOR HUNGARY TO MAINTAIN ITS GROWTH MOMENTUM FOREIGN TRADE HAD TO GROW TWICE AS FAST AS NATIONAL OUTPUT; (D) CONCLUDED THAT HUNGARY, WHILE NOT AS ECONOMICALLY ADVANCED AS OTHER CENTRAL EUROPEAN COUNTRIES, HAD SUFFICIENT POTENTIAL TO BE SO.

4. FOR NEXT FIVE-YEAR PERIOD (WHICH DRECIN SAID BASED LIMITED OFFICIAL USE

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ON LONGER-TERM PLAN) STRESS WILL BE ON INCREASING PRODUCTIVE AND TECHNOLOGICAL BASE OF HUNGARIAN INDUSTRY, SINCE POSSIBILITY FOR CAPITAL INPUT INCREASES LIMITED AND ADDITIONAL LABOR INPUT POTENTIAL NIL. BOTH DRECIN AND KOVACS SAID THIS GROWTH IN RESOURCE-POOR HUNGARY MUST TAKE PLACE IN PROCESSING INDUSTRIES; POSSIBILITIES IN RAW MATERIALS SECTOR LIMITED. IN ORDER TO GROW HUNGARY NEEDS TO EXPORT TO NON-SOCIALIST COUNTRIES AND MUST HAVE

WESTERN TECHNOLOGY TO BE COMPETITIVE. HE ADDED THAT IN LONG TERM HUNGARY WOULD LIKE TO INCREASE SOMEWHAT PROPORTION OF ITS FOREIGN TRADE WITH WEST.

5. HUNGARY HOPES TO MAINTAIN A SIX PERCENT ANNUAL INDUSTRIAL GROWTH RATE DURING PLAN PERIOD. YEARLY GROWTH IN AGRICULTURAL OUTPUT WILL PROBABLY BE 3-3 1/2 PERCENT; IMPRESSIVE YIELD INCREASES OF RECENT YEARS WILL BE IMPOSSIBLE TO EMULATE. GROWTH IN AGRICULTURAL SECTOR CAN HELP COMPENSATE FOR SLOWDOWN IN OTHER AREAS, BUT IN AGRICULTURE MUCH DEPENDS ON WORLD MARKET CONDITIONS AND WEATHER.

6. HUNGARY'S REAL POTENTIAL, SAID DRECIN, LIES IN THE EXPORT TO THE WEST OF CAPITAL EQUIPMENT AND CHEMICALS. IN MOST OF CAPITAL EQUIPMENT FIELD LATEST TECHNOLOGY JUST NOW REACHING HUNGARY, WITH FEW EXCEPTIONS (SUCH AS POWER GENERATING EQUIPMENT). HUNGARY EXPORTS 20 PERCENT OF ITS INDUSTRIAL OUTPUT; WITHIN THIS, 32 PERCENT OF ITS CAPITAL GOODS, 20 PERCENT OF ITS CONSUMER PRODUCTS, 18 PERCENT OF ITS LIGHT INDUSTRIAL GOODS. OF TOTAL CHEMICAL OUTPUT 21 PERCENT IS EXPORTED. HUNGARY MUST IMPORT 53 PERCENT OF THE CAPITAL EQUIPMENT IT USES AND 20 PERCENT OF ITS RAW MATERIALS (EMBASSY NOTE: OF THIS, ENERGY IMPORTS CONSIDERABLY HIGHER: 80 PERCENT, FOR EXAMPLE, FOR CRUDE OIL). ON BALANCE, SAID DRECIN, HUNGARY STILL IS IMPORTER OF INDUSTRIAL GOODS AND EXPORTER OF AGRICULTURAL PRODUCTS.

7. CAPITAL EQUIPMENT EXPORTS WILL RECEIVE FIRST PRIORITY IN 1975-1980 PERIOD, ACCORDING TO DRECIN. (EMBASSY NOTE: IN RECENT NEPSZABADSAG ARTICLE DEPUTY FOREIGN MINISTER UDVARI SAID THAT HUNGARY PLANS TO INCREASE THE SHARE OF ITS CAPITAL EQUIPMENT PRODUCTION WHICH IT EXPORTS, FROM 6 PERCENT AT PRESENT TO 15-18 PERCENT BY 1980.) SPECIFICALLY, SAID LIMITED OFFICIAL USE

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DRECIN; (A) VEHICLES; (B) TELECOMMUNICATIONS EQUIPMENT; (C) PRECISION INSTRUMENTS; AND (D) HEAVY-DUTY POWER GENERATING EQUIPMENT. KOVACS ADDED FOLLOWING AS AREAS TO BE EMPHASIZED, BUT NOT NECESSARILY FOR EXPORT POTENTIAL: (A) RUBBER TIRES; (B) MACHINE TOOLS; AND (C) SEMI-CONDUCTORS.

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AID-05 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03 CIEP-01

LAB-04 SIL-01 OMB-01 STR-04 CEA-01 AGR-05 FEA-01

OES-03 TAR-01 /111 W

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R 210703Z NOV 75

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8. DEVELOPMENT OF CHEMICAL PRODUCTION (PLANNED GROWTH:
EIGHT PERCENT
PER YEAR) AND EXPORTS PRESENTS NEXT BEST
OPPORTUNITY FOR U.S. BUSINESSMEN, ACCORDING TO DRECIN.
PROSPECTS WILL BE MORE FAVORABLE IN FIELDS WHERE HUNGARY
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OR ITS CEMA PARTNERS HAVE NECESSARY RAW MATERIALS. DRECIN
NOTED THAT CEMA COUNTRIES DO NOT HAVE NECESSARY TECHNOLOGY
OR EQUIPMENT, AND MENTIONED FOLLOWING POSSIBILITIES:
(A) PHARMACEUTICALS; (B) PLASTICS; (C) NITROGEN FERTILIZER;

(D) PESTICIDE/HERBICIDES (NOT SO MUCH INCREASED PRODUCTION AS VERTICLE INTEGRATION); AND (E) PETROCHEMICALS.

9. IN AGRICULTURAL INDUSTRY SECTOR, KOVACS MENTIONED:
(A) MORE EFFICIENT APPLICATION TECHNIQUES FOR FERTILIZERS AND PESTICIDES (REF D); (B) VEGETABLE OIL PROCESSING AND CORN PROCESSING IN GENERAL; AND (C) MEAT PROCESSING.

10. SINCE CONVERTIBLE CURRENCY WILL BE SCARCE, NEW PROSPECTS SHOULD BE LINKED TO POTENTIAL HARD CURRENCY EXPORTS, SAID DRECIN. (EMBASSY NOTE: ACCORDING TO SENIOR EXECUTIVE AT HUNGARIAN NATIONAL BANK, MAGYARS ARE TO BORROW \$200-300 MILLION PER YEAR IN WESTERN CAPITAL MARKETS DURING NEXT FIVE YEARS.) DRECIN NOTED THAT DUE TO MFN PROBLEM U.S. FIRMS WOULD HAVE TO EXPORT THROUGH EUROPEAN OR THIRD WORLD COUNTRIES. DRECIN ALSO POINTED OUT POTENTIAL GROWTH IN THIRD WORLD MARKET, AND SAID DEVELOPING COUNTRIES PROVIDE OPPORTUNITY FOR U.S. FIRMS TO CASH IN BY FORMING JOINT VENTURES WITH SMALLER COUNTRIES. (EMBASSY NOTE: HUNGARY HAS ALREADY DONE THIS WITH DANISH FIRMS AND OTHERS.)

11. ACCORDING TO BOTH DRECIN AND KOVACS, INDUSTRIAL COOPERATION AGREEMENTS (ICA'S) PROVIDE MOST USEFUL MEDIUM FOR U.S. FIRMS. HUNGARIAN GOVERNMENT WILL FAVOR SOME ICA'S BY: (A) SPECIAL TAX PROVISIONS; (B) ALLOWANCES FOR ACCELERATED DEPRECIATION; (C) FAVORABLE CREDIT TERMS; (D) MORE FAVORABLE TARIFF RATES FOR GOODS IMPORTED THROUGH HUNGARIAN/WESTERN ICA'S LOCATED OUTSIDE OF HUNGARY. WEST GERMANY LEADS BY FAR IN NUMBER OF SUCH ICA'S RECEIVING SPECIAL CONSIDERATION, FOLLOWED BY AUSTRIA, ITALY AND FRANCE. HUNGARIAN PLANS CALL FOR MANY MORE SUCH ARRANGEMENTS DURING NEXT FIVE-YEAR PERIOD.

12. COMMENT: DRECIN SPOKE FREELY, WITH AUTHORITY, AND WAS OBVIOUSLY WELL PREPARED FOR HIS PRESENTATION. ALTHOUGH MUCH OF THE ABOVE INFORMATION HAS SURFACED IN RECENT MONTHS LIMITED OFFICIAL USE

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IN ONE FORM OR ANOTHER, THIS IS THE FIRST TIME SUCH AN AUTHORITATIVE SOURCE HAS ADDRESSED HIMSELF, TO EMBASSY'S KNOWLEDGE, TO SPECIFIC PROSPECTS FOR U.S. BUSINESSMEN. AMERICAN FIRMS ARE SO FAR FINDING TOUGH SLEDDING IN CONCLUDING NEW ICA'S OR LICENSING ARRANGEMENTS WITH HUNGARIAN ENTERPRISES. THINGS ARE TOUGH IN HUNGARY. HOWEVER, THE EMBASSY IS AWARE OF ONE INSTANCE WHERE A LARGE U.S. FIRM, PURCHASING HUNGARIAN TECHNICAL PRODUCTS, STUCK TO ITS GUNS; AND MAGYARS, ANXIOUS FOR THAT MARKET, CAVED. IN THOSE AREAS IN CAPITAL EQUIPMENT, AGRICULTURAL AND CHEMICAL SECTORS WHERE U.S. TECHNOLOGY HAS OBVIOUS

ADVANTAGES EMBASSY BELIEVES THERE WILL BE OPPORTUNITIES, ESPECIALLY FOR ICA'S AND LICENSING ARRANGEMENTS. BUT, AS MENTIONED BY AMERICANS AND HUNGARIANS AT TWO-DAY SESSION, CONTRACTS WILL NOT BE SIGNED WITH SEVERAL QUICK TRIPS TO BUDAPEST. IN EMBASSY OPINION DRECIN'S INFORMATION CONCERNING 1975-1980 FIVE-YEAR PLAN PROBABLY MORE USEFUL THAN THE REAMS OF PERCENTAGES AND PRODUCTION GOALS WHICH WILL PROBABLY BE ANNOUNCED TOWARDS THE END OF THE YEAR. IT IS OBVIOUS THAT, DESPITE AMBITIOUS CEMA PROJECTS (REF C), MAGYARS WILL, WITHIN LIMITATIONS IMPOSED BY THEIR GIVEN ECONOMIC SITUATION, MODERNIZE WITH WESTERN TECHNOLOGY WHERE POSSIBLE.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC COOPERATION, MEETINGS, ECONOMIC INTEGRATION, FIVE YEAR PLAN, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 21 NOV 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CunninFX
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975BUDAPE03764
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750407-0615
From: BUDAPEST
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19751122/aaaaastu.tel
Line Count: 290
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: CunninFX
Review Comment: n/a
Review Content Flags:
Review Date: 03 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <03 APR 2003 by ShawDG>; APPROVED <14 OCT 2003 by CunninFX>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: DEPUTY MINISTERS OF PLANNING AND FOREIGN TRADE DISCUSS HUNGARY'S FIFTH FIVE-YEAR PLAN
TAGS: EALR, ECON, EEWT, ETRD, HU, US
To: STATE COM
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006